Missouri
Department
of Transportation

MoDOT

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The Honorable Mel Carnahan
Governor of Missouri
Capitol Building, Room 216
P.O. Box 720
Jefferson City, Missouri 65102-0720

Dear Governor Carnahan:

On behalf of the Ad Hoc Task Force on Total Compensation (TFTC) and the Public Safety Retirement Advisory Commission (PSRAC), I am pleased to present our findings and recommendations, as required by Executive Order 97-15. The PSRAC began operating November 1, 1997, and provided the TFTC with a detailed report and recommendations on October 30, 1998. The TFTC members reviewed the report and considered several alternatives at the November 12, 1998, meeting. Members voted to endorse the recommendations included in the PSRAC report, which advocates the development of a retirement plan structure that addresses the issues related to public safety, while at the same time addressing broader personnel management objectives. The end result is a retirement plan that provides a 75% replacement ratio for **all** employees retiring at age 50 or older with 30 years of service. This replacement ratio was recommended by the Commission on Management and Productivity (COMAP) in it's 1994 report to you. The PSRAC proposal promotes benefit equity among all state employees, and implements a key recommendation of the Commission on Management and Productivity (COMAP).

While the TFTC endorsed the PSRAC recommendations, the members did request that their concerns about the elimination in the proposed plan of the unreduced Joint and 50% Survivor benefit be included in the TFTC Addendum. This issue is discussed on page 5 and 6 of the Addendum.

We appreciate your support of state employees, and of the efforts of the TFTC to address pay and benefit issues in a cost-effective, equitable manner. We sincerely hope that you and the General Assembly will find these recommendations useful in addressing this important issue.

Sincerely,

Joe Mickes

Joe Mickes, Chair
Ad Hoc Task Force on Total Compensation

jm/rm/csh-hr

Attachment

AD HOC TASK FORCE ON TOTAL COMPENSATION RECOMMENDATIONS REGARDING

THE PUBLIC SAFETY RETIREMENT ADVISORY COMMISSION REPORT

The Public Safety Retirement Advisory Commission (PSRAC) was created by Executive Order 97-15 to consider issues related to the structure of and benefits to be provided by a retirement program for public safety employees. The terms of the Executive Order required the PSRAC to consult with qualified professionals who have expertise in the areas of retirement and public safety to develop a recommendation regarding such a benefit structure and to define the term "public safety employee." The Executive Order also stipulated that the PSRAC, prior to its termination on October 30, 1998, furnish a final report to the Ad Hoc Task Force on Total Compensation (TFTC) which provides clear policy recommendations relating to their charge. The TFTC is responsible for submitting to the Governor the PSRAC report and this separate addendum containing the TFTC's recommended course of action.

TFTC RECOMMENDATION

At the November 12, 1998, meeting the TFTC unanimously voted to endorse the PSRAC recommendations. The TFTC also considered several alternative proposals, which are summarized in this addendum. In short, the PSRAC and the TFTC recommend the development of a retirement plan structure that addresses issues related to public safety concerns, while at the same time addressing broader personnel management objectives. Key provisions include the following:

PSRAC Proposed Model

Benefit	*Proposed Model*
Normal Retirement Eligibility	Age 62 & 5 Yrs. Service Rule of 80 (Age 60 for Highway Patrol)
Early Retirement Eligibility	Age 57 & 5 Yrs. Service
Benefit Formula Life Benefit Temporary Benefit*	 1.7% of FAS x Service .08% of FAS x Service
Death in Service	Joint & 100% Option (50% of Pay Minimum for Duty Related Death)
Death After Retirement	Reduced Benefit Options
Disability	Present LTD Plan FAS Indexed While in Receipt of LTD
COLA**	80% of CPI with Maximum of 5%
In-Service COLAs	NA
Mandatory Retirement	Mandatory Age 60 for Highway Patrol Only
Portability	Local Vested Service Credit Granted After 10 Years of State Service

*Applicable to members who retire under rule of 80 eligibility and payable until earlier of death or age 62.

**Members hired after 8/28/97 receive annual COLAs based on 80% of CPI with a maximum of 5%; accordingly, this is the present plan for new hires.

The plan would apply to all employees hired after the effective date of the law and would allow employees covered by the present plan to elect coverage under the new plan.

Other benefit recommendations from the PSRAC to be considered by the TFTC at a future meeting:

Life insurance - The PSRAC recommends changing the present life insurance benefit to one times annual salary, up to a maximum of $50,000, and providing triple indemnity for duty related death for all employees. This benefit enhancement would provide (1) an automatic inflationary adjustment to coverage levels; (2) uniformity in coverage among state employees; and (3) an additional life benefit to the survivors of employees who are killed in the line of duty.

Hazardous duty pay - The PSRAC recommends that this issue be addressed by the TFTC as a part of their policy on pay.

Availability of proposed retirement model to retirees - The PSRAC has been advised that the Commission on Management and Productivity (COMAP) previously had taken a position against providing retroactive retirement increases to retirees and that the TFTC has been supportive of that position in the past. In light of this fact, the PSRAC elected to defer this decision to the TFTC for its consideration.

Personnel management objectives associated with the proposed plan:

Provide a retirement benefit that replaces 75% of gross income at age 65 with 30 years of service. The proposed model establishes a 75% replacement ratio for employees retiring at age 50 or older with 30 years of service. The current population of retired MOSERS' members, on average, began employment with the state at age 42 and retired with 20 years of service. Reducing the turnover rate of younger state employees will be required if the state is to increase the average service at retirement from 20 years to 30 years. (Currently, retirees formerly employed by the Department of Conservation, the Department of Transportation, the Highway Patrol, and the Water Patrol on average retired with approximately 30 years of service.)

Provide benefit equity. The existing retirement structure does not promote equity in benefits among public safety personnel since the plan membership is currently extended only to uniformed members of the highway patrol and water patrol. The calculation for the base benefit (final average compensation x 1.6% x creditable service) is increased by an additional 33 1/3% for these two groups. This benefit provision was originally designed as a means to compensate highway patrol employees for the shorter duration of their careers caused as a direct result of a mandatory retirement age (although water patrol employees have never been subject to this requirement). It was assumed that uniformed members would have 30 years of service while non-uniformed members would have 40 years of service (one-third more than the uniformed employees). To "make up" for the expected shorter working career, uniformed employee benefits were increased by one-third. As noted above, over time it appears that uniformed employees actually retire with more service than the general population in MOSERS, and with approximately the same service as the general population in HTEHPRS. Therefore, the PSRAC members felt that it would not be prudent, in terms of public policy, to continue providing this benefit as

currently structured to the highway patrol and the water patrol, or to consider extending the benefit to other public safety employees.

It is important to note that a wide array of positions in state government could arguably be included in a definition of "public safety employee." Typically, proposals to provide an additional benefit enhancement to additional classifications are promoted because (1) the safety of the public is enhanced by allowing employees in certain classifications to retire at an earlier age or (2) employees in certain job classifications are assigned potentially hazardous or stress-related duties. Statistically, more duty related deaths occur in MoDOT than in any other agency. The Department of Corrections, Department of Mental Health and the Department of Social Services rank the highest in job related injuries and disabilities of all agencies in the executive branch.

While the proposed benefit structure is different from the current provisions for uniformed employees, this structure allows all long service employees to retire with a temporary supplemental benefit until reaching eligibility for reduced social security benefits. (Note: The phrase "social security eligibility" in this report means the age the member is eligible for reduced social security benefits.) For uniformed employees, the temporary benefit provides a higher benefit prior to the date of social security eligibility than is currently available. After the member becomes eligible for social security, the benefit reverts to a 1.7% formula. However, this benefit, combined with social security, provides a consistent benefit of at least 75% of salary over the lifetime of a member retiring at age 50 or older with 30 years of service (see PSRAC report, page 15).

In addition, the change in benefit formula will provide a 75% income replacement ratio for **all** employees who retire with 30 years of service. Since the average retired population of both the highway patrol and the water patrol has attained approximately 30 years of service, this change should not have a detrimental effect on the recruitment and retention efforts of those organizations. The proposed model should also significantly help all other state agencies in their recruitment and retention efforts.

Allow retirement before social security eligibility. The PSRAC determined that encouraging retirement before Social Security eligibility would (1) provide opportunities for promotion, reducing turnover among younger employees; (2) reduce payroll costs; (3) refresh the workforce; and (4) address the public safety and hazardous position issues. The temporary benefit of .8% of final average salary for career employees (those with 30 years of service) provides a bridge to social security eligibility, and results in a stable benefit of approximately 75% of salary throughout the retiree's lifetime.

Provide special survivor benefits for duty related death in service. The proposed plan provides a reasonable minimum survivor benefit, in the case of a duty related death, of 50% of the final average salary of the employee with no minimum service requirement. The PSRAC concluded that this provision addresses the issue of additional employer responsibility in the event of duty related death, and should be provided to all employees, without regard to their job classification.

Facilitate local to state portability of benefits. The PSRAC concluded that the state benefits by providing a mechanism which allows the recruitment of experienced employees from the public sector. Portability should give the state an advantage in recruiting employees for all positions. However, the proposal requires that an employee

must work at least ten years with the state before vested local government service is recognized. This requirement ensures that the state receives a significant return (at least ten years of service from experienced employees) to offset the cost of this benefit.

Accomplish all objectives with no material cost impact. The PSRAC recommends elimination of certain existing benefit provisions, in order to offset some of the additional costs associated with the increased multiplier and temporary benefit, and other plan provisions contained in the proposed model. Eliminated provisions include (1) an unreduced Joint & 50% Survivor benefit; (2) in-service cost-of-living adjustments (COLA) for employees working beyond age 65; and (3) elimination of the minimum 4% COLA (for members hired before August 28, 1997, who elect coverage under the new plan). The cost to implement the proposed plan is summarized below:

Cost
Proposed Retirement Model

System	*Cost*
MOSERS	$6,000,000
HTEHPRS	2,060,000
Total	$8,060,000

Proposed Changes to the Insurance Program

System	*Cost*
MOSERS	$2,000,000
HTEHPRS	400,000
Total	$2,400,000

ALTERNATIVE #1

The TFTC also discussed the possibility of adopting the PSRAC model without eliminating the unreduced Joint & 50% Survivor option. The task force voted against including the unreduced survivor provision (7-5). However, the split vote is indicative of the sentiment from several members for some state supplement for the survivor option.

While the value of an unreduced survivor option (sometimes called a "free 50% survivor benefit") was recognized by the members, the rationale for excluding this provision was based on concerns about equity, and about the significant cost of this benefit ($22,000,000). As a practical matter, this free survivor benefit could be considered additional employer-sponsored life insurance for married members. Rather than providing for a lump sum payment upon the death of the member, the "policy" provides an annuity for the remaining life of the surviving spouse. No comparable benefit is made available to employees who are not married at the time of retirement. In addition to the concerns about equity, members were concerned that the considerable cost of this benefit would have a detrimental effect on the state pay plan.

In arguing for keeping the unreduced survivor option in the PSRAC proposed model, members noted the value of this benefit to employees and their spouses. This provision may be particularly valuable to employees with relatively low salaries, who may not be able to afford the reduction in their monthly benefit that would be required to fund this "insurance" for the surviving spouse. Some members noted that, from a policy perspective, the state may have an interest in ensuring that survivors of members maintain some basic standard of living upon the death of the retiree. In addition, it is probable that members would propose legislation in the future to include this provision in the plan, since the unreduced survivor option is a feature in the existing plan.

Although Alternative #1 was not endorsed by the task force, the members did request that their concerns about the value of this benefit be included in this addendum to the PSRAC report. If the survivor benefit cannot be provided at no cost to all married members, some TFTC members felt that the administration should consider providing some level of subsidy for the benefit of surviving spouses.

Cost
Unreduced Joint & 50% Survivor Benefit

System	*Cost*
MOSERS	$19,000,000
HTEHPRS	$3,000,000
Total	$22,000,000

ALTERNATIVE #2:

The TFTC also considered, but did not endorse, an alternative that would change several provisions in the existing retirement plan. The PSRAC proposed plan would apply to all employees hired after the effective date of the law and to all current employees covered by the present plan who elect coverage under the new plan. For employees choosing to remain in the existing plan, the following provisions would apply:

Alternative #2 (Proposed Graduated Multiplier)

Benefit	*Proposed Alternative*
Normal Retirement Eligibility	Age 60 & 15 Yrs. Service Age 65 & 4 Yrs. Service Age 55 & 4 Yrs. Service (Uniformed Highway Patrol) Rule of 80
Early Retirement Eligibility	Age 55 & 10 Yrs. Service
Benefit Formula	Yrs of Service at Retirement / Non-unif. Employees / Uniformed Employees >40 / 1.8% / 2.3333% 35-39 / 1.75% / 2.2833% 30-34 / 1.70% / 2.2333% <30 / 1.60% / 2.1333% For current uniformed patrol employees the additional 1/3 is based on a 1.6% multiplier. New uniformed patrol employees hired after effective date of the legislation will not receive the additional 1/3.
Death in Service	Joint & 100% Option (50% of Pay Minimum for Duty Related Death)
Death After Retirement	Automatic 50% J&S Other Reduced Benefit Options
Disability	Present LTD Plan FAS Indexed While in Receipt of LTD
COLA**	80% of CPI with Maximum of 5% (4% minimum until 65% cap is reached)
In Service COLAs	NA
Mandatory Retirement	Mandatory Age 60 for Highway Patrol Only
Portability	Local Vested Service Credit Granted After 10 Years of State Service

Personnel management objectives associated with the proposed plan:

Provide a retirement benefit that replaces 75% of gross income at age 65 with 30 years of service. This alternative plan establishes a 75% replacement ratio for employees retiring at age 62 or older with 30 years of service. In addition, this model would provide an enhanced multiplier for members with more than 30 years of service. Rather than encouraging retirement before social security eligibility (the PSRAC model) , this alternative encourages the retention of employees for longer periods of service, typically 30 to 40 years.

Provide special survivor benefits for duty related death in service. This proposed plan provides a reasonable minimum survivor benefit, in the case of a duty related death, of 50% of the final average salary of the employee with no minimum service requirement. The PSRAC concluded that this provision addresses the issue of additional employer responsibility in the event of duty related death, and should be provided to all employees, without regard to their job classification. (This provision is the same as that recommended in the PSRAC model.)

Facilitate local to state portability of benefits. The PSRAC concluded that the state benefits by providing a mechanism which allows the recruitment of experienced employees from the public sector. Portability should give the state an advantage in recruiting employees for all positions. However, the proposal requires that an employee must work at least ten years with the state before vested local government service is recognized. This requirement ensures that the state receives a significant return (at least ten years of service from experienced employees) to offset the cost of this benefit. (This provision is the same as that recommended in the PSRAC model.)

Cost
Graduated Multiplier Proposal

System	*Cost*
MOSERS	$6,000,000
HTEHPRS	$7,000,000
Total	$13,000,000

Total Cost
All Three Proposals Combined

System	*Cost*
MOSERS	$31,000,000
HTEHPRS	$12,060,000
Total	$43,060,000

(Excludes $2,400,000 for proposed life insurance changes, which have not been reviewed by TFTC yet.)

CONCLUSION:

The Task Force members believe the PSRAC proposed model provides a fiscally responsible solution that ensures a fair and equitable benefit plan for all employees and that also addresses the public safety employee benefit concerns outlined in the Executive Order. The Task Force members thoughtfully considered all proposals and worked to ensure that the plan that was ultimately approved met important personnel management objectives that have been promoted by the TFTC. If the administration approves the proposed model, the TFTC will draft legislation and meet with legislators that may be interested in sponsoring this proposal. In addition, the TFTC will need to review the PSRAC recommendations regarding changes to the life insurance benefit, and the availability of the proposed plan to retirees.